



By: *Emre Alkin*

# Does the Supply of New Houses Affect Rents?



A single equation is not sufficient to describe an economy. Because an economy has many equations, and every economy has its own dynamics.

The knowledge taught to students in "Introduction to Economics" classes has been produced to help them understand economics more easily, where cause and effect relationships are difficult to discern from one another.

Therefore, when decision-makers claim that the only factor affecting pricing behaviour is supply or demand, this claim raises doubts about their knowledge of economics.

If the continuous supply of houses were able to stop rents from rising further, the Germans, who always try to stay watchful about house prices and rents due to the extreme inflation they experienced in the 1920s, the value of their housing stock would increase rapidly, whereas in Germany, the increase in property value is always below the inflation rate, including new additions to the existing housing stock.

Germany has been experiencing a modest nominal growth rate of 3% for the last decade, and is projected to see the same for the next 5 years.

Clearly, the German government did not increase the housing supply to slow down the surging rents in 2021.

First, the government tried to set a **price ceiling on rents**, but having understood that this would be a big mistake, this policy was changed soon afterwards.

Germany's solution was to manufacture houses that are fit for purpose and directly appeal to people in need of housing. Rents currently remain flat in Germany.

## The US housing market is a mess, but having learned its lesson

Even in the United Kingdom, which is the most attractive country for real estate investors, the value of the housing stock has increased only by 5%. Just like in Germany, rent increases are remaining flat, that is, below 1%.

In short, a housing model that always works as a money maker for builders but does not hurt citizens financially should never be based on rapidly increasing the housing supply.

The US housing market is a mess, but having learned its lesson, the government is trying to grow the market by less than 20% in nominal terms.

Nominal growth in Türkiye's housing market, on the other hand, is 25%, even in the worst year. The people of the country are complaining about the astronomical increase in rents.

### Renters in Istanbul and Moscow have to deal with astronomical rent increases

Russia too makes the same mistake. The Russian housing market has grown by 50% in nominal terms, but rents have increased by 70% annually.

Renters in Istanbul and Moscow have to deal with astronomical rent increases.

Housing prices in Türkiye continue to increase by 100% per year. In Serbia, this rate stands at around 1%, in Croatia it is below 10%, and even in Montenegro, where housing prices are on the rise, it is also below 20%. In these countries, yearly rent increases vary between 3% and 3.5%.

In the former Iron Curtain countries, which are Slovenia, Slovakia, Latvia and Lithuania, the increase rate of housing prices is around 10%. Yes, these countries have low populations, but even in autocracy-loving Hungary, nominal growth in the housing sector is less than 20%.

Rent increases had declined in Hungary, and

now they remain flat. Even in Poland, which was once one of the favourite countries of contractors, rents remain flat, with an increase below 10%.

## People in every country complain about rent increases

People in every country complain about rent increases, but their governments do not attempt to solve this problem by increasing the housing supply.

Even Uzbekistan, where the construction industry is booming, has managed to keep the nominal growth in housing units below 25%.

The point is that a country suffering from undocumented migration, high cost of living, disrupted free market dynamics, lack of public confidence in national currency, price distortions, and a major influx of refugees would inevitably face serious problems in terms of housing.

**Governments that push rapid growth, not development, tend to blame "lack of housing supply" for all the bad things that happen to the country**

However, governments that push rapid growth, not development, tend to blame "lack of housing supply" for all the bad things that happen to the country because they know that the construction economy can help them greatly in achieving their goal of rapid economic growth.

Meanwhile, they ignore the delayed inflationary effects created by the fast-growing construction sector.

Consequently, the prices of housing related products or services such as construction materials, white goods, furniture, etc. increase constantly in tandem with the cost of living.

## Rapidly rising rents will have to take a break from soaring

So, people who tend to see the economy as a sum of simultaneous equations also tend to think that price increases can be restrained by increasing supply. However, this is not the case.

The increase in prices and rents cannot be stopped unless problems involving trade, security and diplomacy are properly solved, and unnecessary interventions in the free market are brought to an end.



*Rapidly rising rents will have to take a break from soaring. But, it will not happen because the housing supply has increased - Emre Alkin*

At some point, rapidly rising rents will have to take a break from soaring. But, it will not happen because the housing supply has increased. It will happen due to an organic slowdown of the rising trend in the housing sector.

However, though they will not soar, rents will continue to increase at least as much as inflation.

This article is actually a call to governments still driven by last century's paradigms, that claims that the cause of inflation is low supply and high demand for goods and services, therefore, still embracing the motto that "if we produce more, prices will fall".

If pricing behaviour has been disrupted due to insecurity, high cost of living, absence of structural reforms, government interventions in free market economy, and lack of inter-

sectoral communication and trust, you cannot fix it by stimulating production alone.

Note: The data in this article were gathered from reports published by the Bank for International Settlements (BIS), Statista, country-by-country housing statistics and information provided in the international press.